

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 5 – SB 8

January 16, 2019

SUMMARY OF BILL: Eliminates the amusement tax on membership dues and fees paid to sports and recreation clubs, including free or complimentary dues or fees, when such are made in connection with a valuable contribution to any such establishment or organization, including any fees paid for the use of such facilities or services rendered at a health spa or club or any similar facility or business.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – \$21,078,400

Decrease Local Revenue – \$8,601,500

Assumptions:

- The effective date for this legislation is July 1, 2019.
- Pursuant to Tenn. Code Ann. § 67-6-212(a) and § 67-6-202(a), the amusement tax is equal to the state sales tax levied on the sale of tangible personal property at retail. The current state sales tax rate is 7.0 percent.
- For the purpose of this fiscal note, the term “state sales tax” has the same meaning as “amusement tax” and is used interchangeably henceforth.
- Based on information provided by the Department of Revenue (DOR), physical fitness facilities, country clubs, golf clubs, and membership sports clubs are entities that will be affected by this legislation.
- According to the DOR, FY17-18 state sales tax revenue from such facilities totaled \$27,682,787.
- The 2012 Economic Census reports that membership revenue accounted for approximately 79 percent of total revenue of fitness and recreational sports centers.
- This legislation does not affect the sale of tangible personal property at such facilities.
- It is therefore assumed that 21 percent (100% - 79%) of such state sales tax revenue will not be affected by this legislation for it is not derived directly from membership dues or fees.
- A recurring decrease in state sales tax revenue of \$21,869,402 ($\$27,682,787 \times 79\%$).
- Total taxable membership dues and fees affected by this legislation are equal to \$312,420,029 ($\$21,869,402 / 7\%$) per year.

- Pursuant to Tenn. Code Ann. § 67-6-702(a)(1), any county, by resolution of its county legislative body, or any incorporated city or town, by ordinance of its governing body, is authorized to levy a tax (a local option sales tax) on the same privileges subject to this chapter as the chapter may be amended, that are exercised within such county, city or town, to be levied and collected in the same manner and on all such privileges.
- Given this legislation removes authorization for the state to levy the state sales tax against the applicable membership dues and fees, local governments will no longer be able to levy a local option sales tax against such membership dues and fees.
- The average local option sales tax rate is estimated to be 2.5 percent. The effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The recurring decrease in state sales tax revenue (after accounting for state-shared allocations to local government) is estimated to be \$21,078,386 [$\$21,869,402 - (\$21,869,402 \times 3.617\%)$].
- The recurring decrease in local sales tax revenue is estimated to be \$8,601,517 [$(\$312,420,029 \times 2.5\%) + (\$312,420,029 \times 7.0\% \times 3.617\%)$].
- Any increase in state and local sales tax revenue as a result of tax savings being spent in the economy on sales-taxable goods and services is estimated to be not significant because any tax savings to any one individual is expected to be relatively small and due to the possibility that some sports and recreational clubs could increase dues or fees in attempts to capture the savings as additional profit.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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